“SKF India Limited Q4 FY-2015 Earnings Conference Call”

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Ladies and Gentlemen, Good Day and Welcome to the SKF India Limited Q4 FY-2015 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Lovina Raymond – Corporate Communications Manager, SKF India Limited. Thank you and over to you ma’am.

Lovina Raymond:
Good Afternoon, Everyone. I would like to introduce the SKF management who are joining us on this call today -- Shishir Joshipura -- Managing Director, SKF India Limited along with Chandramowli Srinivasan -- Director Finance, SKF India Limited. I will now hand over the conference to our Managing Director -- Shishir Joshipura who will briefly discuss the Highlights of Q4 2015 of SKF India Limited. Over to you, sir.

Shishir Joshipura:
Good Afternoon and Welcome to this Call. The Fourth Quarter 2015 as you know that we have an extended financial year this time to comply with the new company law. So the fourth quarter of 2015 we saw pretty moderate growth in the Manufacturing sector as such while a couple of segments started to look up, there have been also some segments which have not looked up and they are still facing headwinds. We have continued on our path of letting innovation drive our growth and create a path for us so that we can create a higher value for our customers and capture the same as well. This is also the “Make In India Week” so I cannot not make a comment on that and we remain very optimistic that the economy will develop positively at the back of this initiative and other movements in the economy.

I will now hand it over to you guys for questions.

Moderator:
Thank you very much. We will now begin with the Question-and-Answer Session. The first question is from the line of Raghu Nandan from Quant Capital. Please go ahead.

Raghu Nandan:
Questions on revenue and margin; firstly, on revenues, can you share the mix for the quarter?

Chandramowli Srinivasan:
So in the quarter, Exports was about 7% which is primarily Automotive, so about 45% Automotive you could say and 55% Industrial.

Raghu Nandan:
The mix seems to have reduced for Automotive sir?

Chandramowli Srinivasan:
Yes, that is right or you could say on the other hand Industrial has increased more compared to previous quarters.

Raghu Nandan:
So within Automotive, how would be the mix between Two Wheeler OEM, Four Wheeler OEM and Replacement?

Chandramowli Srinivasan:
So out of the 38% Aftermarket is about 1/3rd of that and 2/3rd is OEM and within that 2/3rd about 55% is Two-Wheelers and 45% is Four-Wheelers.
Raghu Nandan: For the Industrial side, how would be the Replacement OEM?

Chandramowli Srinivasan: For the Industrial side out of 55%, 29% is the Replacement and about 26% is the OEM.

Raghu Nandan: How would be the traded mix for the quarter?

Chandramowli Srinivasan: For the quarter marginally increased to 46% of Traded and 54% for Manufacture.

Raghu Nandan: For the quarter, Traded portion has increased mainly because Industrial portion has increased and despite that we have had a strong margin performance with EBITDA margin coming as high as (+13%). So can you throw some light there as to like we usually understand that Traded portion should have a lower margin, so how the margins have actually improved and panned out on a positive side? Even if I compare it with quarter-on-quarter or quarter of last year, on both ways there is improvement.

Chandramowli Srinivasan: One is on the Industrial side, as you said, within the Industrial because the aftermarket has been better than the OEM side so that obviously helps in the margins. That is one. Secondly, currency has remained more or less constant so we have had no surprises or shocks because of currency. So the price mix has been helped by better sales in the aftermarket of Industrial rather than the OEM. That is one part of it. If you remember the same quarter last year we had explained at that time that that quarter actually we had a slightly adverse sales mix, we had more of some lower priced sales businesses that we had taken on from strategic point of view. So no such things this quarter. Also, another thing that helped our margin this quarter compared to the same quarter last year is that last quarter we had a hit of about 90 million on account of actuarial valuation of certain post-employment benefits which this quarter has actually been small gain of 10 million. So there has been a swing of about 100 million on that count, plus all the other things that we have done in terms of improving the costs in the factories have all helped the manufacturing margin, lot of work done in terms of reducing material cost, softer material prices have helped, plus a lot of work done in reducing cost of non-quality in the factories, a lot of waste taken out, our energy conservation continues to be on a strong footing and we continue to save on energy cost. So all this has helped on the Manufacturing side.

Raghu Nandan: Would we also be benefited because of the Euro depreciation?

Chandramowli Srinivasan: Euro has remained more or less steady, in fact, now it started to appreciate now but that is more in the current year …

Shishir Joshipura: Also, Raghu, as I was saying in the beginning, the focus that we are putting on innovation leading our growth which means that we create a higher value for our customers and therefore also capture a higher value from them. That has been a very strong program that we are driving now and we begin to see some initial results of that, but I am sure that will continue to build as we go forward as well.
Raghu Nandan: FOREX loss or gain in the current quarter, how much was…?

Chandramowli Srinivasan: 6 million gain.

Raghu Nandan: On the revenue side, initially you alluded to that some of the segments have done well whereas others are still lagging. Can you elaborate on that? Also, if you can throw some light on the outlook for the Railways segment, how we are seeing traction there and then we can witness better ramp up in revenues?

Shishir Joshipura: Not for me to comment on any company in particular, but in general what we are seeing is obviously there is a lot of traction in Railways, there is a lot of activity that is currently underway with Railways in terms of the new requirements, the modernization requirements and we are seeing a lot of new opportunities emerge out of Railways. So that should continue to build strongly as we go forward. We are also beginning to see some changes in especially Heavy Commercial Vehicles on the positive side; we are seeing positive traction with Construction segment of Highway Vehicles segment. On the other hand, Wind continues to be where it is flat, we are seeing Mining has become a good segment but Metals continues to face strong headwinds. Those are what I call as now the universal facts in terms of the challenges that some of these industries are facing. So it has been a mixed bag. Two-Wheelers have remained flat but Heavy Commercial Vehicles done better. Tractors have not done well but Cars are doing okay and so on.

Moderator: Thank you. The next question is from the line of Deep Shah from SBICAP Securities. Please go ahead.

Deep Shah: A couple of questions; if you can break the Railways and the Wind segments proportion in the total revenues for the quarter?

Chandramowli Srinivasan: For the quarter if I take only the Industrial OE segment, then Wind has been about 17-18% out of the total sale and Railways has been around roughly the same.

Deep Shah: Second question would be in the last conference call, if I read it correctly, you have mentioned you are executing some higher value contracting the CV segment which were got delay just due to the delay in the customers and not at our end. So has that contract now executed in this quarter?

Shishir Joshipura: No, it is not executed yet; we are still waiting for the lines to pick-up at that end.

Deep Shah: In this quarter, are we expecting any sort of improvement?

Shishir Joshipura: I am happy to get that answer from the Truck guys.

Moderator: Thank you. The next question is from the line of Nishit Jalan from Kotak Securities. Please go ahead.
Nishit Jalan: My question is for the industry. If you can throw some light regarding what are the industry size across different segments and how is SKF market share in different segments?

Shishir Joshipura: I do not know whether this would be possible for me to do it on a telephone call, but as Mowli was mentioning, about 45% of our sales come from Automotive, about the balance comes within Industrial there are two big segments we already mentioned Energy and Railways and we also mentioned about Distribution and Direct Sales both in Automotive side as well as on the Industrial side which was the answer to the previous question. This is the same answer I think is the same set of numbers.

Nishit Jalan: Anything on the market size of different key segments that you are operating into like Wind, Railways?

Shishir Joshipura: In terms of market size as I was mentioning that as we see the activity pickup in Construction, Infrastructure so that would mean off will go up, Railways already we see a lot of traction in terms of the size expansion taking place. But what is happening is these are new kinds of requirements that are coming up. It is not that the Railways market was a defined market and that itself is expanding in size. What is happening now is there are new needs coming up, new kind of Bearings, new kind of solutions, new condition monitoring system. So that kind of a thing is now happening with Railways. It is not a scale up of the same set of products; it is a scale up on account of new demands that are emerging from these segments.

Moderator: Thank you. The next question is from the line of Mukesh Saraf from Spark Capital. Please go ahead.

Mukesh Saraf: First question is again back to the margins front. If I look at the gross margins, it has improved about 130 basis points on a quarter-on-quarter basis, that is September quarter versus December quarter. As far as what you have mentioned as of now the reason could be the Aftermarket and OEM within the Industrial, is there any other reason for this that you would like to…?

Shishir Joshipura: Three things I will say before Mowli can give some detail on numbers; one is, yes, there is a favorable product mix, obviously, we only sell more in Aftermarket it helps compared to the OEM business, but that is just one dimension. I was also mentioning that we have put very strong focus over the last 1-year on letting innovation drive in terms of what we do with our customers, our offerings and if we are able to create some solutions which are highly innovative that then allows me to capture a larger value as well. As I create larger value for a customer I can also capture a little more. So that is the second that is helping us. Third is and I have said this many times and Mowli probably bear me out on this one, my recommendation to you, do not look at it our company just from a quarter-to-quarter perspective, in the sense that it is important to see a little longish-term trend as to what we are attempting to do, how we are doing, are we able to manage within a band and that would probably a better way to look at just a quarter by itself, whether good or bad and I am not saying this is because it is very good this time and I can afford to say it now, but the question is that very good or it is a performance
indicator of time on many-many points how did this foreign exchange moved in that particular quarter, etc., While these are important, my recommendation to all of you and request is look at it little long term and that will probably help you to understand this company better. That is what I will say, but Mowli can give you more specific answer if you want on number side.

**Chandramowli Srinivasan:** I agree, Shishir, with what you said about slightly longer, but just to answer a very specific question this quarter we also had a better mix on the vehicle aftermarket also so that also helped the margins. Continuing material cost was quite favorable for us compared to the previous quarter both in terms of price and in terms of a lot of things that I said earlier on yield, etc., some of our actions on improving productivity on the manpower front that has led to a decrease in the wage bill for employees and the small delta in FOREX gains; last quarter we had a small loss of 18 million, this time we had a gain of 6 million, so that also helped.

**Mukesh Saraf:** Also, you brought up the employee costing. I was just noticing that it is a lowest absolute number cost that we have in the last 8-quarters. So is this a sustainable number or is there just some one-off provisioning which is lower or anything this quarter?

**Chandramowli Srinivasan:** No, there is no one-off as such, but again here I would tell the same thing what Shishir said that while the long-term trend is definitely that we have done a lot of things on the employee cost to reduce it, but some quarters can have some influence in terms of we have variable pay structure as the year comes to an end, you have either to increase your provision, reduce the provision, etc.,

**Mukesh Saraf:** Last quarter you had alluded to these new programs on the Four Wheeler side Bearing which is the third generation Bearings and you did mention that SKF is going to take part in this move to third gen in a much better way than the second gen. So just an update on that scenario, do we continue to see that by end of …?

**Chandramowli Srinivasan:** We are seeing that a change happening, we have contracts with the leading guys now both on Cars and Commercial Vehicles sides to move to the Next Generation of Bearings. But as these things happen we are still looking at this whole year we will go into building the infrastructure to produce them. So maybe next year beginning onwards we will start to see real traction on commercial numbers for those.

**Mukesh Saraf:** So 2017 beginning we will start seeing supplies for CVs and Cars?

**Chandramowli Srinivasan:** That is correct.

**Moderator:** Thank you. The next question is from the line of Raghu Nandan from Quant Capital. Please go ahead.

**Raghu Nandan:** Just wanted to understand like 2017 you said third generation Bearings will ramp up. When would the Railways business ramp up – would it be like second half of the current year because I think that is what something on those lines you had alluded to in the previous calls?
Shishir Joshipura: Yes, that is what should happen. We are just waiting. So the first batch is getting delivered to Railways now as we speak. Unfortunately, we do not have visibility to Railways program for tendering right now. But as and when the next tender comes up then, we are fully eligible to participate, so we will see how it works but, yes, you are right, it will happen, it will start to work towards the latter half of the year.

Raghu Nandan: Railways would be roughly about 5-6-% of our sales currently?

Chandramowli Srinivasan: If you take the total sale it is about 5%.

Raghu Nandan: On the balance sheet side, long-term loans and advances have started reducing. So have those payments started to come in by SKF Technologies – would that be the reason?

Chandramowli Srinivasan: That is right.

Raghu Nandan: Receivables is on the higher side. Would it be because of Railways or any other reason?

Chandramowli Srinivasan: No, a couple of reasons; one is we had good sales towards the end of the year, so that obviously would sit in accounts receivable but actually we did a lot of work to reduce our number of days actually on the overdues if I may say so. So we did lot of work and actually we reduced our overdues towards the end of the year quite considerably. So what you see as a certain value of receivables is actually more to do with the strong ending of sales towards the end of the year. We work with normally 45-50-days cycle. So that is what it represents.

Raghu Nandan: On the employee cost side, does it include the provision under the New Bonus Act sir?

Chandramowli Srinivasan: Yes, it includes all amount, it is not a big amount.

Raghu Nandan: Broadly, what tax rate should we work with going forward?

Chandramowli Srinivasan: Almost the full rate.

Raghu Nandan: Because this quarter it seems to be on the higher side at 36%?

Chandramowli Srinivasan: 35%, very marginally I think.

Moderator: Thank you. The next question is from the line of Ashutosh Tiwari from Equirus. Please go ahead.

Ashutosh Tiwari: Sir, with the ABS coming into a lot of new cars and also paying compulsory in Trucks, so will that change the use of Bearings to some extent?

Shishir Joshipura: I cannot say it will change, but it can change because it depends on the total technology package which the OEM will deploy. One of the ways for them to do the ABS is to tap the signals through Bearing, but that is just one way, there are other alternate technologies that
compete. So finally what is the technologies they choose for their product line, that will determine. So what happens is that it is not that more Bearings are required, it is just that if you go to the ABS route, may be a different kind of Bearing is required. We are already contracted with a couple of them to supply Bearings that will enable the ABS signal take off.

**Ashutosh Tiwari:** So are we supplying that kind of Bearings and all for that?

**Shishir Joshipura:** Yes.

**Ashutosh Tiwari:** So you must be knowing how country is shaping up because a lot of new cars are coming up with ABS now. So are most people using Bearings for that purpose or going through the alternate route as you mentioned?

**Shishir Joshipura:** I think when people are going to 3rd Generation Bearings then probably Bearings become the route. So that is where the future is according to me.

**Ashutosh Tiwari:** When do you expect third generation Bearings to…?

**Shishir Joshipura:** So that is a program for all the car makers, I am saying generally for the industry in general, that is what would happen. So over the next 3 to 4-years horizon we see at least 2/3rd of the industry on Generation-3 Bearing.

**Ashutosh Tiwari:** Normally, how much is the cost increase happens in case of even you move to Third Generation Bearings?

**Shishir Joshipura:** It depends on what is the kind of Bearing that they want us to build; there are dimensions to how much is the weight reduction required and what is the friction level. So I do not have an equation which will say this cost X that has got 3X but that is generally the level; it is X to 3X.

**Ashutosh Tiwari:** You said that for Trucks, moving to Third Generation Bearings. Is that correct?

**Shishir Joshipura:** Trucks is not 3rd Gen, trucks is mainly next generation, trucks is a different, so 3rd Generation is the term that we normally use for Cars whereas Truck is different. So the trucks are moving to a higher level of Bearing platforms, yes.

**Ashutosh Tiwari:** Second thing, if I look at your Railways, 5% of sales come from Railways. So is it largely passenger-driven as of now or the freight has started coming through to some extent?

**Shishir Joshipura:** We do not have any freight components right now.

**Ashutosh Tiwari:** But you were mentioning last year it should be coming through now, you have developed?

**Shishir Joshipura:** As I was mentioning in my earlier answer that as we speak we are dispatching first lot of Bearings for the freight application.
Ashutosh Tiwari: If I look at the purchase of traded goods in the profit & loss account, that is down YoY and you are saying the trading sales is on the higher side in the current quarter. So is it because…?

Chandramowli Srinivasan: So a couple of things; one is purchase of traded goods is of course only a purchase figure, there is also a stock movement that happens there. So that is one thing. But the second thing is as we said in the last quarter, if you remember, we had said that there were certain businesses that were high volume businesses but those price levels was a little bit more competitive, therefore the margins on traded goods in that particular quarter was on the lower side. That is not the case now. So that is the reason.

Ashutosh Tiwari: Export is roughly 6% of our sales currently. But what potential do we see over there – can the quantum increase going ahead for the company?

Chandramowli Srinivasan: Exports is about 7% to 8%. That depends really entirely on the Western Car markets because our primary sales of exports is on the European Car market though we also sell some to other markets as well. World economy right now is not in the greatest of shape. So to that extent I would think that exports would more or less be around this level going forward for some immediate near future.

Moderator: Thank you. The next question is from the line of Mahantesh Sabarad from SBI CAP Securities. Please go ahead.

Mahantesh Sabarad: I wanted to understand since Aftermarket is one of the most lucrative business for you. What are the steps that you are taking to expand that business? Currently, what is your footprint in terms of the availability of your space in countrywide and where do you want to take that in the next 1-2-years?

Chandramowli Srinivasan: So there are two dimensions to it – there is an Automotive Aftermarket and then there is an Industrial Aftermarket okay. So the Automotive Aftermarket operates very differently; it is more based on the distribution network, then the connected retailing network and then the connected mechanics network to then because the decision maker is still the mechanic in this case. So that market operates on a different set of principle where the principles of distributions are very-very important, availability, price competitiveness and the distribution management and things like that so which drive these. On the other hand, as the vehicles are becoming more and more sophisticated, I and you are little wary of going to mechanics who do not know how to open a particular nut or bolt. So we are focusing a lot on educating and building capabilities in our network so that they are able to use the right product, fit it in the right way and therefore deliver the right value and safe operations to the actual end user. On the Industrial side, clearly, the focus has been and this is what we are building is that customers are now beginning to ask for a level of engagement which is extending beyond… “Keep inventory and give me the product when I want to say, come diagnose my problem, propose a solution.” Then whatever the solution form takes place that is what I would like to do and then stay with me for a period of time to help make sure that the solution that you have given actually works and delivers the value that we initially thought out. So there the network
is changing to a more capability driven network in terms of creating more engineers in the network, creating certified partners there, who can do the maintenance programs for customers independently. So there the focus is more on one dimension is to create these capabilities within the existing network. The second one is as India industrializes it will also be moving away from big cities and even tier-II cities this is moving to smaller areas into industrial zones. So we are also trying to create a network, this is something that we started 2-years-ago, we are trying to create a network out there which is expanding is reach to closer to those customers who are in far-flung areas. So that is a secondary network that we have created for the distribution and on both dimensions of automotive and this will continue to strengthen them as in terms of both capabilities, but also keep expanding our footprint by continuously revamping and seeing as to where particular industrial activity is taking up and then we will make sure that our presence is felt there. There is also a segment that is emerging now in our focus zone and that is there are a lot of what I would call as OEM products specially in Automotive where we may not be present in the original equipment, but we still have a high value proposition to offer in terms of Replacement market and we are focusing on that as well to bring out those product lines as well.

Mahantesh Sabarad: Just to understand, is there any monitoring that you do let us say in terms of number of outlets or a number of certified engineers, is there any measure that you monitor and therefore take up target…?

Shishir Joshipura: Yes, yes, we do lot more than that, we even try and manage to understand what is the sale that is taking place for them, what products are moving off their shelves, what is the demand being created, how many certified people they have got, we help them to recruit them, we help them to train them, we run a separate program to make sure that these …

Mahantesh Sabarad: Is there a monitorable target we are sitting outside the company to be able to sort of track and understand?

Shishir Joshipura: I am very wary of sharing those numbers.

Mahantesh Sabarad: Just to extend this quarter since it is lucrative business, is there any profit target that you would have signed in let us say two years down the line or five years down the line from what you are currently, is it something …?

Mahantesh Sabarad: We internally have a number but we do not issue it outside.

Moderator: Thank you. The next question is from the line of Vaibhav Baid from Motilal Oswal Securities. Please go ahead.

Vaibhav Baid: Sir, on the Auto OEM side, you said 45%, right?

Chandramowli Srinivasan: Total Automotive, not OE.
Vaibhav Baid: Could you give us the breakup of OEMs and how much is the Aftermarket?

Chandramowli Srinivasan: I already said that; out of 45%, 7% is exports, so if we take only Domestic Auto is about 38% for this quarter, and within that 38% the Vehicle Aftermarket is about 1/3rd and 2/3rd is the OEM, of which about 55% is Two-Wheelers and 45% of Four-Wheelers.

Mahesh Bendre: Which are Four-Wheelers would come under…?

Chandramowli Srinivasan: Trucks, Tractors basically.

Vaibhav Baid: On the Two-Wheelers, who would be our major clients like HMSG or?

Chandramowli Srinivasan: All of them actually -- Hero, Bajaj, TVS, HMSG, Yamaha, Royal Enfield and everywhere.

Vaibhav Baid: So, would we be having a major market share in all these OEMs at least on the Two Wheelers side?

Chandramowli Srinivasan: Differing market shares to different players.

Shishir Joshipura: But overall in Two-Wheelers we are the leader.

Vaibhav Baid: Sir, going forward, could we see this margins that has increased, could we sustain them as the raw materials they probably bottom up and start picking up?

Shishir Joshipura: That would be the attempt.

Vaibhav Baid: On the Passenger Vehicles side, could we see acquiring any new customers?

Shishir Joshipura: All the time.

Vaibhav Baid: So currently, do we have any OEMs?

Shishir Joshipura: We are serving to practically everybody who is somebody in that business and our attempt is to continuously solidify our position with the existing customers as well as at the new comers to the game.

Moderator: Thank you. The next question is from the line of Puneet Gulati from HSBC. Please go ahead.

Puneet Gulati: First of all, on the revenue side, while it appears that you seem to have done quite well. Is it possible to break up the business sales decline in terms of pricing and in volume for the quarter?

Chandramowli Srinivasan: For the quarter price levels were marginally better more on account of mix I would say rather than anything else.
Puneet Gulati: What would be the volume decline roughly then?

Chandramowli Srinivasan: Not really, volumes I would say more or less steady as well.

Puneet Gulati: But you said the pricing was better, but revenues are down…?

Chandramowli Srinivasan: The pricing across the individual segments were more or less steady, it is just that the mix was slightly better as was the same quarter last year.

Puneet Gulati: But the revenues are down 1.2, so the volumes would have been weaker in that sense?

Chandramowli Srinivasan: It is about 1% lower volume, that is all.

Puneet Gulati: What would be the percentage of sales from the SKF Technologies portfolio for you?

Chandramowli Srinivasan: If I take the total traded goods, around 15% of that would be from SKF Technologies.

Puneet Gulati: What were the total traded goods as a percentage of overall revenue this time for the quarter?

Chandramowli Srinivasan: For the quarter, it is 46%.

Puneet Gulati: Is it all Industrial or when you say Traded, you also include some Automotive as well?

Chandramowli Srinivasan: No, here it is by and large Industrial.

Puneet Gulati: So 46% would be the contribution of Industrial in the overall revenue and 38% you said was the Automotive?

Chandramowli Srinivasan: Overall Industrial for the quarter is about 55%. We also sell something from what we make also.

Puneet Gulati: So this time it is quite high, right, and yet you had such amazing margins. I know you have given quite a bit color on the margins. Is it also possible to attribute some bit of it to lower raw material cost and if yes, how much would that be responsible for margin expansion?

Chandramowli Srinivasan: I do not want to give out specific numbers, but, yes, I did mention that lower material cost also helped us on the manufacturing margins. On the traded margins, as I mentioned, this time it was also the fact that the distribution was also on the good side compared to the OEM side on the distribution.

Shishir Joshipura: The first cost of material was lower but we had also driven a very intensive aggressive program across all our factories for reduction of scraps generation in the factory and that is also goes to then lower the material cost, so that has also helped.
Puneet Gulati: On the big picture, emissions norms seem to be the new flavor of the season and India seems to be jumping on to Euro-VI. Is it possible to understand what kind of value addition you would be able to do on the bearing side and how significant change it would be compared to Euro-IV?

Shishir Joshipura: Fundamentally we are looking at two dimensions -- one is of course better combustion which is the different signs on the engine side and the second one is to reduce the friction because we want to go longer distance with the same fuel. So when it comes to lower friction, obviously, then we will have a role to play, it is not only this, then there will be seals and then there will be lubrication system and the inter-manages and all this I think the architecture of the OEM platform will actually determine what happens next, but directionally speaking it is the time for higher technology, lower friction products as compared to BS-IV.

Puneet Gulati: So if an OEM goes for a higher EGR strategy or a lower EGR strategy, what would be more beneficial for you?

Shishir Joshipura: We are happier if they go for a lower emission high efficiency vehicles.

Moderator: Thank you. The next question is from the line of Damodaran Kutty of Edelweiss. Please go ahead.

Sharda: Sharda here. Just two questions; wanted to understand what is driving the Replacement better in both the segments and the OEM cycles are down across the segments, in both Automotive and Industrial you said they fair better than OEM when the OEM have been down, so what is driving the sales in each?

Shishir Joshipura: Sharda, I said, give a break to OEMs because the OEM business is also depending on a number of working days in the quarter, etc., so we had Diwali in that quarter, etc., obviously, their demands go down plus India most of the Indian economies 4th quarter for the Indian economy will be Jan to March so OEM businesses will take a different shape at that time. Per se there is a problem in the economy which has not gone away completely which is what we see in terms of reduction in our continued headwinds for say Metal OEMs, for Machine Tools OEMs, etc., So those are some of the segments which have really faced. Wind has not made much progress. So the OEMs in these segments have their own issues and challenges to overcome. So that is the OEM part of it. On the other hand, as I was mentioning earlier also we are very clearly focused on change of focus we have said innovation should lead what we do and that is what we are trying to deploy, some early successes, but we need to make sure those remain with us going forward and we further consolidate on them.

Sharda: So you are saying this is driving our distribution better?

Shishir Joshipura: Yes.

Sharda: Also, are we increasing the distribution penetration as well?
Shishir Joshipura: Yes, as I was mentioning earlier to a question that on three or four dimensions, one is of course engagement with the network, second is helping build their capabilities in a differentiated way, the third is reaching out to their customers and empowering those customers to make more informed and better choices and fourth is also letting service become an integral part of the offering from our distribution network as well. So those are the four things that we are doing.

Sharda: Sir, just want to understand what is the market share traction in each of the segments as we are developing a lot of new solutions, say if you can share in some of the key segments, say Automotives, Two Wheelers, CV?

Shishir Joshipura: So, as I said, in the Car for example, the third generation bearing or in trucks the next generation bearing, as they start to roll out or Railways for us, these are positively developing market share segments because honestly speaking we are starting from a lower base, obviously, they will build much-much significantly better for us, on the other hand, more steady state volume industry let us say two wheelers, there is not much for us to talk about because it is a fairly steady state industry, it is not going to go through some big leap or anything, there the shares are very stable. There have also been some segments because one is volumes are down and second is also in both Automotive and Industrial we had started at the beginning of the last year some kind of selective understanding of “Do we need to everything to everyone” kind of a question and we did some analysis and then we decided to act in a certain direction, which led to some kind of adjustment to our portfolio as well. So that is what we have done during the year.

Sharda: Sir, will it be possible to quantify the market share in each of the segments?

Shishir Joshipura: I do not think I or Mowli either will have because there is no authenticated source available other than for automotive, because all other are guesstimates, because there is no authentic information available every quarter saying okay, all associations are printing something kind of situation, we do not have it.

Sharda: In the Two Wheelers we would be in the range of 25-30, that remains steady and Four Wheelers, we are…?

Shishir Joshipura: Yes, if you look at it, overall we should get about 27%-odd.

Moderator: Thank you. The next question is from the line of Mukesh Saraf from Spark Capital. Please go ahead.

Mukesh Saraf: Just had a question on the cash balances. We have close to Rs.700 crores of cash right now and maybe another about Rs.150-odd crores that we have the loan given to the subsidiary. So with this kind of cash balances, just trying to understand what is the future in terms of deployment of this cash because on the Industrial business, the Railways or Wind or most of this I see that business will be more trading from SKF Technologies business. So could you give some sense
on that? Is there a very high amount that you would have to invest on product development for this third gen bearings for CV?

Shishir Joshipura: Yes, some of these cash will also enable us to develop more aggressively on some of the future generation products which is right way you surmised. But that is not where all the money is going to get used; however, I think what was important is also I do not know whether Mowli had a chance to mention that to you but we also seen 2015 to be a year of a very low capital expense because of the way the markets were. If that comes back, then maybe we will have to look that though not right now, right not we continue to hold our position that for the next 20% of production changes, we do not need to invest into our capacities, there may be some product lines specific capacity that we will build but nothing on an overall basis. So those are some of the drivers. We will continue to look for opportunities as and when they come and they are not many for us to see if we can find different growth path either inorganic or whatever. So we look at those things.

Mukesh Saraf: But on the non-Auto side, there would not be any expenditure because that would happen at SKF Tech, is that correct?

Shishir Joshipura: Yes and no, there is also expense to be made by us on the industrial side. So there is some work which SKF India does which is holding the industrial market, we have just launched our new series of housings which is in SKF India which will be complementary product for bearings and that is something I would expect that as the year develops we will start to see some traction on that.

Mukesh Saraf: But, it would remain this high, you do not foresee some huge CAPEX and product development spends in the next 2-years or so?

Shishir Joshipura: No. It is a good problem to have rather than have a problem that we do not have cash, this is a better problem to solve.

Mukesh Saraf: I guess at least if dividends could go up, it would probably a good thing sir?

Shishir Joshipura: We will take your message to the board.

Moderator: Thank you. The next question is from the line of Kunal Bhatia from Dalal & Broacha. Please go ahead.

Kunal Bhatia: Just one clarification; sir, you mentioned overall market share in case of Auto would be around 27%?

Shishir Joshipura: No, I said overall Bearing market share for us would be about 27%.

Kunal Bhatia: I just also wanted to know the figure for the Q4 last year same time in case of the revenue mix, if you could share that also?
Chandramowli Srinivasan: Q4 last year Industrial was about 51% and Automotive including Exports was balance 49%.

Kunal Bhatia: Within that how much would be the …?

Chandramowli Srinivasan: Within that 49%, one-third was the aftermarket and two-third was similar to what we have currently.

Kunal Bhatia: How about the Trading and Manufacturing?

Chandramowli Srinivasan: Traded was 43% last year same quarter and 57% Manufacturing.

Kunal Bhatia: My second question was in regards to you have been mentioning in your initial comments also about the innovation drive for our growth. So just want to understand from you, currently, out of our total revenue mix which we have, the innovative share of our business stands at what level, I mean to say, those products which we have been developed say in the last 2-3-years period, how much of that has contributed to the current sales because of which we have already seen some margin improvement and going forward what kind of levels they could reach?

Shishir Joshipura: Let me put like this; so maybe about 13-14% of our sales numbers that you see now is out of these new innovations that we have deployed in the field, but we have a program where we want to take it to a significantly higher level compared to where it is today. So that is what we are working on.

Kunal Bhatia: Have you seen this pace going up because the way the Auto industry has been moving to say we have a different kind of vehicle every two or three years as more of hybrid, more of electric vehicles coming in, have you from your side witnessed any change that is happening?

Shishir Joshipura: There is a changing focus for having more modern bearings fitted on to the equipment, less friction more service entry level rather than component level, more modernized movements, the sensorized bearings, different strokes for different people, depending on where their technology platform is. But it is moving in the direction of even more and more “Sophisticated Bearings” compared to today coming into the play as we go forward.

Kunal Bhatia: So if one were to look at the basic bearings and the sort of a machining kind of an assembly tool bearing, is there any share which you could give us in terms of your bearings provided to Industrial and Automotive, meaning how percentage is from the basic Bearings and how much percentage would be from the assembly or the machining kind of Bearings?

Shishir Joshipura: No, that is not the way we would be able to provide you. We do not track it that way. So that will not be possible for me. The question you said has set me thinking, but that is not the way we look at our business.

Moderator: Thank you. The next question is from the line of HR Gala from Panav Advisor. Please go ahead.
HR Gala: What are the reasons for reduction in the staff cost – have we given any fresh VRS after 2013?

Chandramowli Srinivasan: A couple of reasons if you are comparing it to the same quarter last year; last year fourth quarter had a hit of about 90 million on account of an actual valuation of post employment benefit whereas this quarter that is a small gain of 10 million. That explain a bit of a swing. Then of course, during the year we have done quite a bit of work on manpower productivity improvement, we have had some reduction in headcount, etc., So that is also reflected in the numbers there.

HR Gala: But there is no fresh VRS?

Chandramowli Srinivasan: No.

HR Gala: One question for Joshipura. Sir, we had developed that stop co product for the two wheelers. Have we taken that project further – is it in the market?

Shishir Joshipura: Yes, we have taken it further and we got some feedback from the users once if we get the first initial lots. So that has now been incorporated in the product. My team tells me that we will be ready to relaunch with that feedback which was now made available sometime in this year, so we will do that.

HR Gala: So you expect good volumes from the OE side?

Shishir Joshipura: I have no idea about that. That is something that we will have to win the battle.

HR Gala: Like how you will approach?

Shishir Joshipura: We will approach the OEM. We will see what can be done, what is the model where it works. As I was mentioning it is also a matter of philosophy of the OEM in terms of at what point they want to integrate technology into their systems. So those are the questions that still have to be answered but we remain hopeful that we will do something with that.

HR Gala: But first, we will be moving through OEMs or first we will be moving through aftermarket?

Shishir Joshipura: We are working on both the options.

HR Gala: How much is the ICD outstanding as of now 31st December?

Chandramowli Srinivasan: Rs.190 crores.

HR Gala: That includes the short-term, long-term, everything put together?

Chandramowli Srinivasan: Yes.
Moderator: Thank you. The next question is from the line of Mahesh Bendre from Way2Wealth Securities. Please go ahead.

Mahesh Bendre: Compared to calendar year 2015 our revenues and profits have been flat. So when we are reading into this year where you are witnessing some kind of improvement in some segment of your businesses and even the Railways opportunity is there. Do you think this year will be better than compared to last year in terms of sales and profits?

Shishir Joshipura: That is attempt to improve 2016 over ’15, but as Mowli was saying and all of us know there is no crystal ball for us to say how ’16 will unfold, but that is the attempt that we should do better in ’16 compared to ’15.

Mahesh Bendre: Sir, in your opening remarks, you mentioned about the “Make in India” campaign. So are we participating in the same by setting up manufacturing capacities?

Shishir Joshipura: We already have been making over the last 50-years. So that is not the problem. In fact, I was there on Saturday, we have put up a pavilion with very high focus on innovation, Prime Minister Modi was with us in our stall and we were talking to him and he said, yes. So we will invest into what I would call as is a sort bringing some rupees of to a Greenfield Project. I think this whole thing is all about creating a very capable supply chain, uplifting the standards of operations, quality, performance, we were mentioning earlier about BF4 to BF6. So there are many-many things that companies like us can do and we will stay focused on doing all, bringing sustainability to manufacturing. I think there are many dimensions that we will be working upon and bringing it to our operations.

Moderator: Thank you. Ladies and Gentlemen, due to time constraints, that was the last question. I would now like to hand the floor over to Ms. Lovina Raymond for closing comments.

Lovina Raymond: On behalf of SKF India Limited, I would like to thank you all for joining us today in this conference call. Should you have any further questions for the management, kindly drop me an e-mail at lovina raymond@skf.com Have a great day ahead.

Shishir Joshipura: Thank you.

Moderator: Thank you. On behalf of SKF India Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.